



## **State Investment Commission**

### **Monthly Meeting Minutes**

**Wednesday, July 27, 2011**

**9:00 a.m.**

**Room 135, State House**

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:00 a.m., Wednesday, July 27, 2011 in Room 135, State House.

## **I. Roll Call of Members**

The following members were present: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Robert Giudici, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

Also in attendance: Mr. Joseph Fergus and Mr. Justin Bickle, of Oaktree Capital Management; Ms. Sally Dowling, of Adler Pollock, & Sheehan, and Mr. Joe Rodio Jr., of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Thomas Lynch, Steve Nesbitt and Jacob Walthour, of Cliffwater; Ms. Lisa Tyrell, of State Street Corporation; Mr. Louis M. Prata, Member of the Employee's Retirement Board of Rhode Island; Mr. Frank Karpinski, Executive Director of Employees' Retirement System of Rhode Island and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order.

## **II. Oaktree Presentation**

Mr. Fergus gave a brief history of Oaktree Capital Management and discussed their management philosophy and strategies.

Mr. Giudici asked for clarification on how Oaktree "acquires debt" and if the company simply purchases debt or if they assume it in equity interest.

Mr. Bickle replied it depends on the company, but most of the time they go in through the debt but are happy to be equity holders and be involved during the long run. Mr. Bickle goes over the debt situation in Europe as opposed to Asia and North America. Mr. Bickle said the European market is more lead by banks than US market. The banks in Europe do not provide the liquidity some businesses require which is where Oaktree steps in. Mr. Bickle pointed out Oaktree has a large local sourcing network and has offices all over Europe which provides the local credibility with banks.

Treasurer Raimondo asked Mr. Bickle if Oaktree typically replaces management when they come in and provide liquidity to a struggling company.

Mr. Bickle replied that Oaktree does not usually replace management in those instances and they like to study the dynamic of the present management system. He said a major difference is most companies in Europe buy debt and then analyze it, but Oaktree chooses to do analysis prior to any purchases of debt.

Mr. Lynch said Cliffwater has completed their due diligence on the Oaktree European Principle Fund III and that Cliffwater recommends investing 20 million US dollars . Mr. Costello asked the Oaktree representatives if they were worried about the sovereign issues in Europe affecting their opportunities. Mr. Bickle said they are not because even in some scary situations there are still good businesses and good companies within those countries. Oaktree would stay away from severe situations like the current one in Greece.

On a motion by Mr. Costello and seconded by Mr. Reilly, it was unanimously  
**VOTED: To invest \$20 million in Oaktree European Principal Fund III subject to negotiation and finalization of documentation after legal counsel review.**

### **III. Approval of Minutes**

On a motion by Mr. Costello and seconded by Ms. Gallogly, it was unanimously  
**VOTED: To approve the draft of the minutes of the June 22, 2011 meeting of the State Investment Commission.**

### **IV. PCA Presentation**

Treasurer Raimondo asked Mr. Burns to go over the Risk Management part of his presentation at the next monthly meeting when more members are present. Mr. Burns agreed then proceeded to review the memorandum regarding the management of the Global Equity Portfolio 51% Allocation. PCA recommended of that 51%, 84% of it be in Global Equity and that the additional 16% be allocated into Hedge Funds. Mr. Burns said that PCA also recommends hiring a Currency Overlay Manager. Treasurer Raimondo said the commission would need to come up with a process to decide how to select a Currency Overlay Manager. Mr. Kenneth Goodreau asked the commission to vote having that as an option at the moment but not vote on it happening definitely. Mr. Burns said the reason the Currency Overlay Manager is in the recommendation by PCA is because the portfolio has over 20% invested in other currencies besides the US dollar. Mr. Giudici asked what PCA's strategy was to analyze risk of getting involved with other countries and their currencies which can be volatile. Mr. Burns said it would definitely be a passive system, but there will be active managers for emerging markets.

On a motion by Mr. Costello and seconded by Ms. Gallogly, it was unanimously  
**VOTED: To approve PCA's recommended Growth Portfolio Policy as set forth in their "Growth Portfolio Structure" Memorandum dated July 20, 2011.**

Mr. Burns moved on to the second PCA memorandum regarding Rebalancing Ranges. PCA recommended the commission employ risk based tactical asset allocation. Mr. Burns said the commission needs to think about risk instead of letting returns drive the asset allocations, risk should be the driving force in the future if the bands are changed.

Treasurer Raimondo said these ranges are very conservative and the board should look at risk more in the future to monitor its investments.

Mr. Goodreau pointed out although the bands are tight and conservative, the investments usually remain pretty close to the target anyway; this is just to ensure there's no huge fluctuations based on return driven decisions.

Mr. Costello raised questions regarding the strategy of making investment decisions internally or externally. Mr. Costello also shared that the 2% range is pretty standard on most asset classes, but 2% is very different when it's on 51% then on 3%.

Treasurer Raimondo said the board will vote on implementation strategies at a later date.

On a motion by Mr. Costello and seconded by Ms. Gallogly, it was unanimously

**VOTED: To approve PCA's recommended Rebalancing Policy as set forth in PCA's "Rebalancing Range Considerations and Recommendations" Memorandum dated July 20, 2011.**

## **V. Meeting Schedule**

On a motion from Mr. Reilly and seconded by Ms. Gallogly, it was unanimously

**VOTED: To cancel the meeting scheduled for August 24, 2011.**

## **VI. Cliffwater Presentation**

Mr. Nesbitt introduced the topic of his presentation today to be implementation plans for Hedge Funds. Mr. Nesbitt said Cliffwater recommends a 15% allocation of Total Fund Allocation to Hedge Funds. Cliffwater recommended 8% within Global Equity. Cliffwater also recommended of the Real Return Allocation, that 5% of the 11% be in Hedge Funds. Another recommendation of the 20% allocated to fixed income, 2% of that 20% should be comprised of Fixed Income Hedge Funds. Cliffwater recommended the commission invest in approximately 20 Hedge Fund and that the implementation of this plan be over a six month period, preferably by January 1, 2012. Cliffwater's proposed guidelines are to not be above 15% of the manager's total managed assets, to not allow any individual hedge fund to represent more than 2% of Rhode Island's total assets, side pockets are permitted but should total less than 5% of the hedge fund assets, low overall fees are desirable, the target overall asset allocation is 15%, and returns are expected to equal the long only asset benchmark return over a market cycle at a significantly lower level of risk. Cliffwater provided a list of 7 Hedge Funds for the Real Asset Portfolio, 10 for the Global Equity Portfolio, and 3 for the Fixed Income Portfolio, however as Treasurer Raimondo pointed out that these selections were simply a target list where due diligence had been provided by Cliffwater.

Mr. Costello asked how likely it would be for the provided list to still be intact in 6 months.

Mr. Nesbitt replied that of the 20 provided, maybe 16 or 17 would be on the final list. Mr.

Nesbitt said that transparency among the Hedge Funds is a must. Mr. Nesbitt expressed that Cliffwater would like to start executing the plan presented.

Treasurer Raimondo voiced concern over some firms which are getting too large.

## **VII. Legal Counsel Report**

Legal Counsel had no other report.

## **VIII. Chief Investment Officer Report**

Mr. Goodreau voiced his desire to turn some of the board's discussions about risk management into actions and to carefully proceed with the future plans keeping those discussions in mind.

## **IX. Treasurer's Report**

Mr. Reilly said that he believes the board needs to spend more time focusing their attention on what's actually in the portfolio.

Treasurer Raimondo said she has asked Mr. Nesbitt to do a diagnostic of real estate.

Mr. Goodreau said that the board should keep an eye on unintended exposure from the managers.

## **X. New Business**

*None this month*

## **XI. Adjournment**

There being no other business to come before the Board, on a motion by Ms. Gallogly and seconded by Mr. Reilly the meeting adjourned at 10:45 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gina Raimondo".

**Gina M. Raimondo**  
General Treasurer